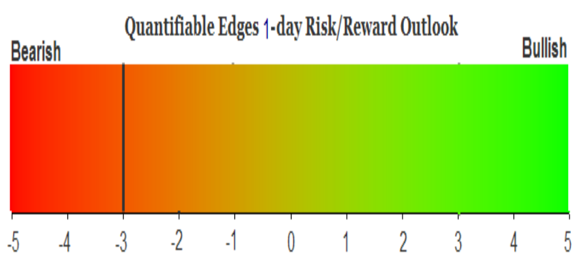
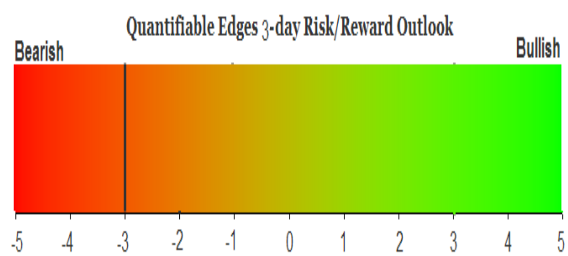
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 29, 2018 Volume 12 Issue 19

Market Overview





Signals Overview

Aggregator	CBI Reading
Short	0

Tonight's Research Points

- The worse the close on the day before a Fed Day, the better the Fed Day has performed.
- Fed Day performance has historically been bullish prior to the release, and inconsistent after the release.

Short-term Outlook

The Bottom Line

The Aggregator is still bearish, but even a small decline would change that.

Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
January 28, 2019	Up 3 < 200. Largest gain of 3 days	1-3 days	Bearish			
Active - Long Term						
January 9, 2019	Up Issues > 70% for 3 days	1-85 days	Bullish			
January 9, 2019	SPY up 3 < 200. SPY volume dn 3.	1-20 days	Bearish			
January 8, 2019	Zweig Thrust	1-20 days	Bullish	7.50%	-1.45%	-2.50%
January 2, 2019	NASDAQ leading	int term	Bullish			
November 1, 2018	Best 6 Month During Pres Yr 3	1-6 months	Bullish	17.70%	-3.10%	-7.20%
October 1, 2018	Quantitative Tightening $50billion/mo	int term	Bearish			
Dropped Tonight						
January 28, 2019	SPY unfill gap and go < 200ma.	1 day	Bearish			

The Evidence

Monday saw the market gap down and stay down. The SPX lost 0.8% the NASDAQ fell 1.1%, and the Russell 2000 declined 0.6%. Breadth was negative as the NYSE Up Issues % was 44% and the Up Volume % came in at 39%. NYSE volume rose some from Friday's level.

The action Monday failed to trigger any Quantifinder studies. But it is notable that Wednesday is a Fed Day. Fed Days have historically shown a bullish inclination (up until Powell took over last year, as I showed last night). One of the more compelling studies I featured in The Quantifiable Edges Guide to Fed Days examined Fed Day performance based on the quartile that the SPY closed in of the daily range on the day before the Fed Day. The basic finding was that the worse the close, the better the Fed Day edge. I last updated the studies by quartile in the 1/30/18 letter. Below are the 4 quartiles from highest to lowest in the daily range. All are updated.

Tomorrow is a Fed Day. SPY closes in top 25% of the intraday range.
Buy on close. Sell next day's close. $100k/trade. 1993 - present.

TradeStation Performance Summary Expand

All Trades

Total Net Profit	$6,728.13	Profit Factor	1.27
Gross Profit	$31,707.93	Gross Loss	($24,979.80)
Total Number of Trades	82	Percent Profitable	47.56%
Winning Trades	39	Losing Trades	41
Even Trades	2		
Avg. Trade Net Profit	$82.05	Ratio Avg. Win:Avg. Loss	1.33
Avg. Winning Trade	$813.02	Avg. Losing Trade	($609.26)
Largest Winning Trade	$2,238.25	Largest Losing Trade	($2,739.69)

Tomorrow is a Fed Day. SPY closes > 50 and <= 75% of the intraday range.
Buy on close. Sell next day's close. $100k/trade. 1993 - present.

TradeStation Performance Summary Expand

All Trades

Total Net Profit	$15,344.96	Profit Factor	2.04
Gross Profit	$30,036.07	Gross Loss	($14,691.11)
Total Number of Trades	49	Percent Profitable	53.06%
Winning Trades	26	Losing Trades	22
Even Trades	1		
Avg. Trade Net Profit	$313.16	Ratio Avg. Win:Avg. Loss	1.73
Avg. Winning Trade	$1,155.23	Avg. Losing Trade	($667.78)
Largest Winning Trade	$4,704.07	Largest Losing Trade	($2,246.40)

Tomorrow is a Fed Day. SPY closes > 25 and <= 50% of the intraday range.
Buy on close. Sell next day's close. $100k/trade. 1993 - present.

TradeStation Performance Summary Expand

All Trades

Total Net Profit	$10,372.87	Profit Factor	2.01
Gross Profit	$20,616.00	Gross Loss	($10,243.13)
Total Number of Trades	37	Percent Profitable	67.57%
Winning Trades	25	Losing Trades	12
Even Trades	0		
Avg. Trade Net Profit	$280.35	Ratio Avg. Win:Avg. Loss	0.97
Avg. Winning Trade	$824.64	Avg. Losing Trade	($853.59)
Largest Winning Trade	$2,943.00	Largest Losing Trade	($2,066.62)

Tomorrow is a Fed Day. SPY closes in bottom 25% of the intraday range.
Buy on close. Sell next day's close. $100k/trade. 1993 - present.

TradeStation Performance Summary Expand

All Trades

Total Net Profit	$23,346.14	Profit Factor	4.34
Gross Profit	$30,327.24	Gross Loss	($6,981.10)
Total Number of Trades	39	Percent Profitable	74.36%
Winning Trades	29	Losing Trades	10
Even Trades	0		
Avg. Trade Net Profit	$598.62	Ratio Avg. Win:Avg. Loss	1.50
Avg. Winning Trade	$1,045.77	Avg. Losing Trade	($698.11)
Largest Winning Trade	$4,645.80	Largest Losing Trade	($2,945.28)

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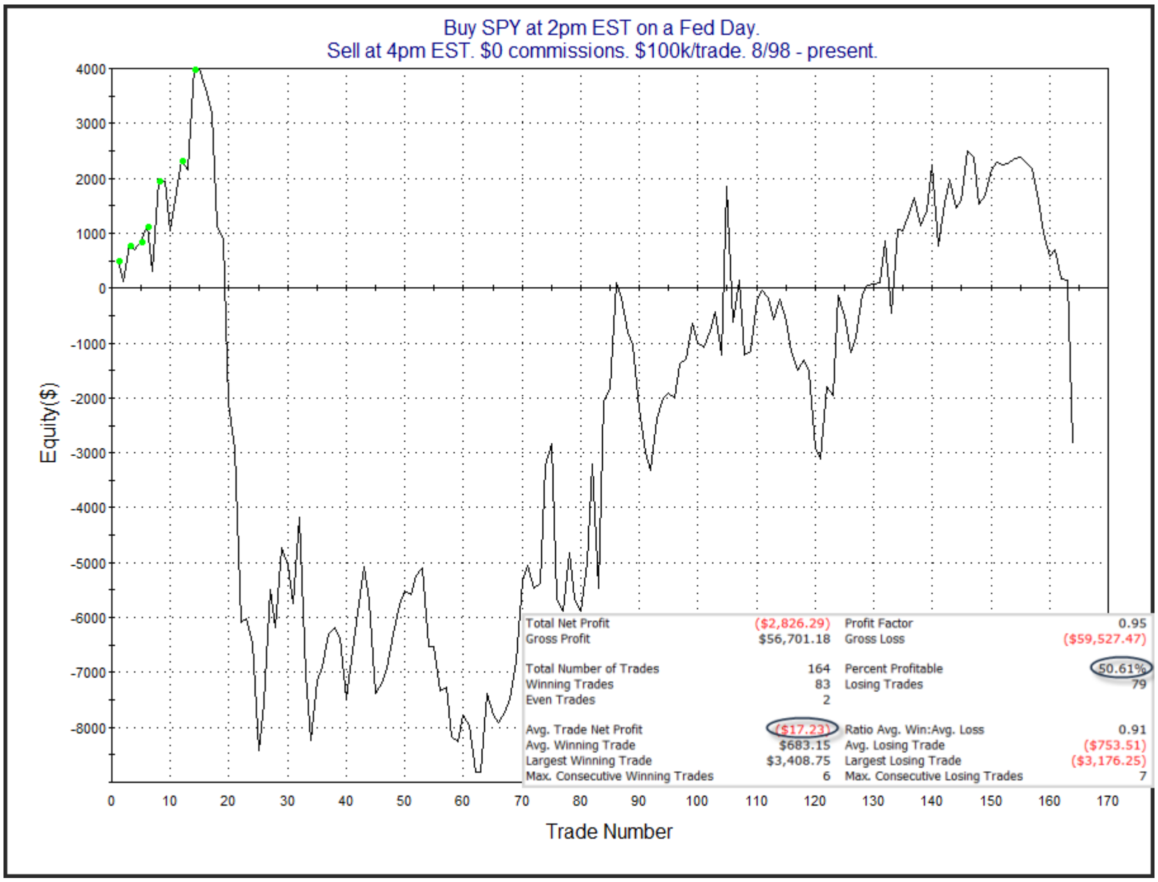
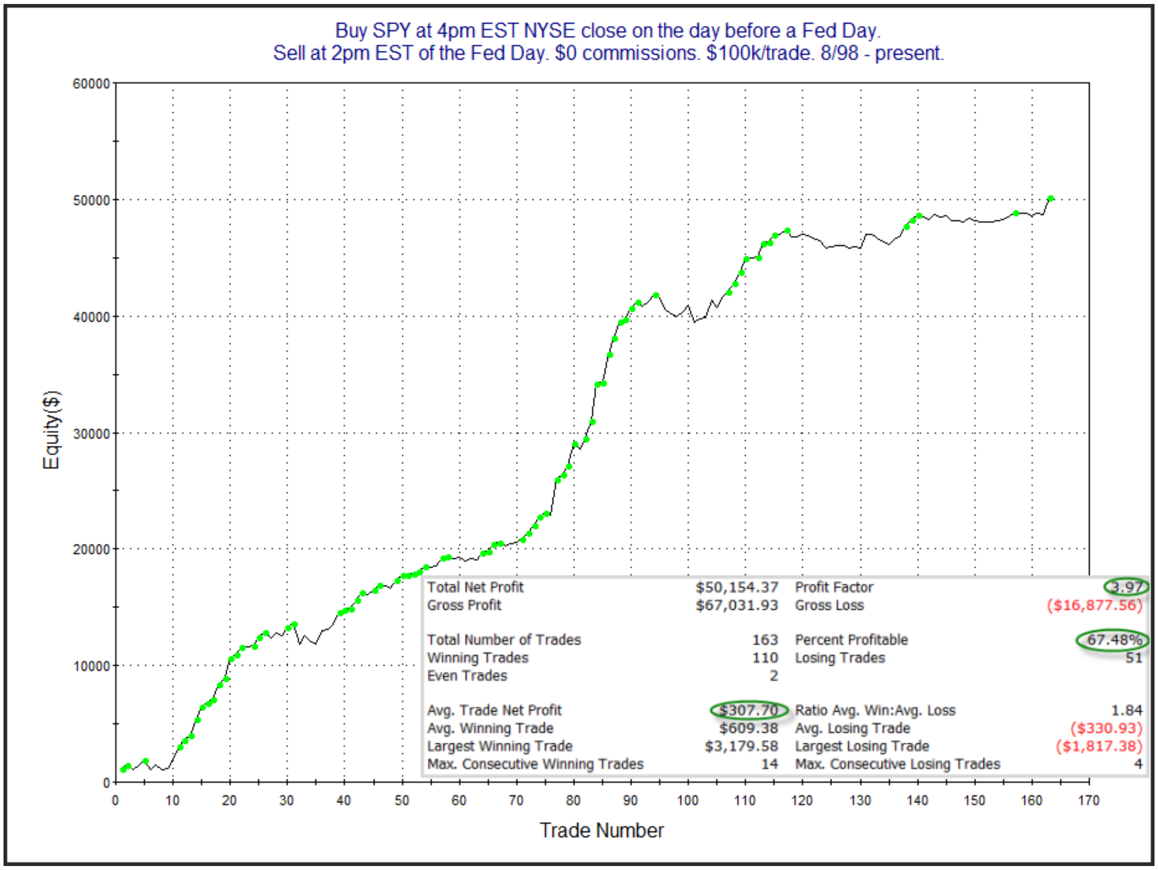
What was true 8 years ago when I first devised this study holds true today: the worse the close, the better the potential edge. So traders will want to keep this in mind as we approach the close on Tuesday.

It should also be noted that the bullish inclinations of Fed Days have basically played out prior to the actual Fed announcement. Additional volatility can be expected after the announcement, which introduces some more risk. This can be seen in the two studies below.



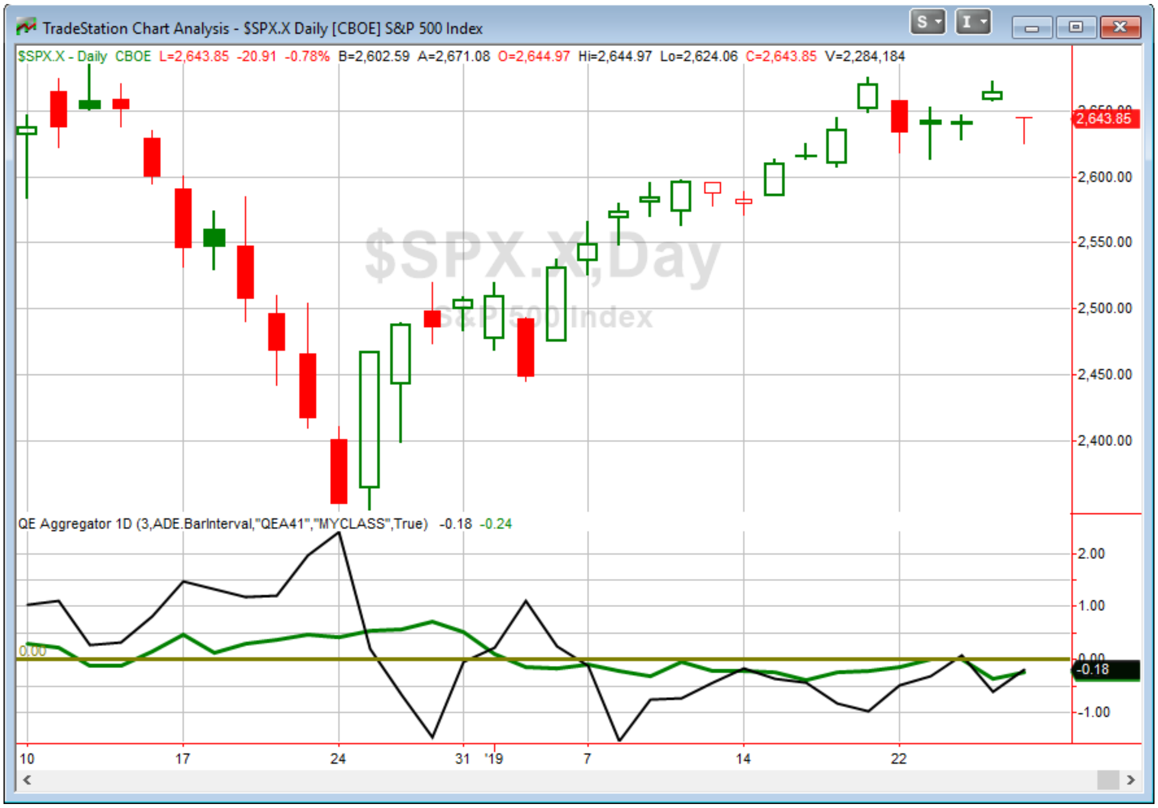


A couple of notes:

1) The 2nd test is showing 1 less instance, because my Tradestation data was missing intraday data for 1/30/2007, which was the day before the Fed Day. So no purchase was triggered. But in looking at ES futures data, it closed up a mere 1 tick (0.25 points). So that trade had very little impact on results.

2) There were a few days where the Fed announcement came out before 2pm. (Between 2010 and 2012 they had some early announcements at 12:30.) Additionally, the formal announcement for a long time was 2:15pm. In any case, making minor adjustments for the actual release time would make very little difference, and the point would remain exactly the same. The bullish edge has all been realized prior to the actual announcement. After the announcement, returns have been very inconsistent.

I have updated the Aggregator chart below.



Without any new studies set for Tuesday, the green Aggregator Line remained below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile, the black Differential Line also held below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are negative and SPX is overbought. This is considered a bearish configuration. bearish configurations are visible on the chart whenever both lines close below zero. Therefore, the Aggregator signal stayed short at the close.

Based on the current Active Studies list expectations are set to remain negative on Tuesday. The Differential Pivot will be 2639.06 on Tuesday. That is 0.2% below Monday's close. So SPX will only need to close down 0.2% on Tuesday on order to flip from overbought to oversold versus recent expectations.

So the Aggregator is still bearish. Evidence from the weekend is still pointing south, but no confirming evidence emerged on Monday. Potential reward now appears quite limited, since even a small decline of 0.2% or more would turn SPX oversold and mean the end of the short Aggregator formation. The unfilled gap down on Monday appears unfortunate at this point, since I did not get a fill on my short position. Reward/risk at this point is greatly reduced, and I am not inclined to chase that trade lower on Tuesday. I will stand aside and wait for a more favorable reward/risk setup to emerge. The next few days could see some volatile movement, so the next opportunity may not be far off.

Intermediate-term Outlook (2 weeks – 2 months) – updated 1/28– somewhat bullish

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

OpenCatapult Triggers

None

Broad Market Large Cap CBI – 0

Additional New Trade Ideas

A full listing of system triggers can be found at the numbered systems page each night. I will cherry pick some of my favorite setups from the S&P 100 and ETF lists along with occasional other trade ideas to track below.

None tonight.

Current Open Trade Ideas

None

A complete list of Quantifiable Edges trade idea results since the inception of the letter in 2008 can be found here.